PAGE

PAGE PETROLEUM LTD. / 1978 ANNUAL REPORT

PAGE PETROLEUM LTD.

Incorporated in Alberta, Canada

CORPORATE PROFILE

Page Petroleum Ltd. was formed by amalgamation in Alberta on August 13, 1971. The Company has continued and expanded the operations of its predecessor companies, acquiring oil and gas reserves through exploration, development and purchase. Page has traditionally operated in Western Canada, although in 1973 the Company expanded its operations into the United States.

As of May 1, 1979, Page's 2,795,981 outstanding shares were held by 1,900 registered shareholders. A total of 1,700 Canadian individuals and corporations held 81% of the shares.

CAPITALIZATION

Authorized: 5,000,000 common shares, no par value
1,000,000 preferred shares, $10 par value
Issued Capital May 1, 1979 — 2,795,981 common shares

HEAD OFFICE

11th Floor Royal Bank Building
335 - 8th Avenue South West
Calgary, Alberta
T2P 1C9

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary and Toronto

AUDITORS

Collins Barrow
Calgary, Alberta

LEGAL COUNSEL

McCombe Cameron
Calgary, Alberta

BANKING

The Canadian Imperial Bank of Commerce
Calgary, Alberta

STOCK LISTINGS

The Toronto Stock Exchange
Symbol "PGE"

Over the Counter (U.S.)
NASDAQ Symbol PAGEF

SUBSIDIARIES

Page Petroleum Inc.
Page Petroleum (U.K.) Limited
Cowzanoil Ltd.
Magnolia Petroleum Ltd.
Northline Well Servicing Ltd.
Leaf Petroleums Ltd.
109085 Oil & Gas Ltd.
109086 Oil & Gas Ltd.

OFFICERS

LAWTON L. CLARK, President
THOMAS J. JACOBSEN, Vice President and General Manager
ALEX S. CATHCART, Vice-President Exploration
C. BARRIE CLARK, Vice-President Finance
GEORGE E. PATEY, Vice-President Production
BRIAN G. McCOMBE, Secretary

DIRECTORS

LAWTON L. CLARK
President, Page Petroleum Ltd.
Amarillo, Texas

C. DEREK GOULD
Independent Consulting Geologist
Calgary, Alberta

HARRY A. IRVING
President, Irving Industries
(Irving Wire Products Division) Ltd.
Calgary, Alberta

THOMAS J. JACOBSEN
Vice President, Page Petroleum Ltd.
Calgary, Alberta

BRIAN G. McCOMBE
Barrister and Solicitor,
McCombe Cameron
Calgary, Alberta

FORM 10-K

The Company's 1978 Annual Report on Form 10-K, filed with Securities and Exchange Commission of the United States, is available to stockholders who request it by writing to Page Petroleum Ltd. at 11th Floor Royal Bank Building, 335 - 8th Avenue South West, Calgary, Alberta, Canada T2P 1C9.

PAGE PETROLEUM LTD.

FINANCIAL AND OPERATING HIGHLIGHTS

(Unless otherwise indicated, all dollar amounts in this report are expressed in Canadian dollars).

	1978	1977	Increase (Decrease) Per Cent
FINANCIAL			
Gross income	$ 5,670,000	$ 2,017,000	181.1
Sales of oil and gas	$ 4,930,000	$ 1,918,000	157.0
Well servicing income	$ 610,000	—	—
Investment and other income	$ 130,000	$ 99,000	31.3
Total expenses	$ 4,328,000	$ 1,577,000	174.4
Net Income	$ 1,004,000	$ 318,000	215.7
Per Common Share	$ .41	$ .18	127.8
Funds Generated from Operations	$ 2,669,000	$ 1,049,000	154.4
Per Common Share	$ 1.23	$ .58	112.1
Additions to Property and Equipment	$11,358,000	$ 2,929,000	287.8
Working Capital	$ 114,000	$ 668,000	(82.9)
Long-Term Debt	$10,182,000	$ 5,547,000	83.6
Shareholders' Equity	$ 9,610,000	$ 3,564,000	169.6
Common shares outstanding	2,065,418	1,999,252	3.3
Number of shareholders	1,142	1,500	(23.9)
OPERATIONS			
LAND HOLDINGS			
Gross Acres	917,439	2,580,075	(64.4)
Net Acres	113,900	157,270	(27.6)
DRILLING ACTIVITY			
Gross Wells Drilled	113.0	53.0	113.2
Net Wells Drilled	92.6	42.6	117.4
Net Wells Productive	87.5	42.3	106.9
Net Wells Dry	5.1	0.3	1,600.0
PRODUCTION — gross (before royalties)			
Crude Oil and Liquids — barrels	467,755	266,352	75.6
Per day	1,282	730	75.6
Natural Gas — mcf	607,342	194,938	211.6
Per day	1,664	534	211.6
RESERVES — gross proven and probable			
Crude oil — barrels	13,096,000	7,235,000	81.0
Natural Gas — mcf	12,989,000	9,589,000	35.5

RANGE OF MARKET PRICES ON COMMON SHARES:

	Year	1st Quarter High	1st Quarter Low	2nd Quarter High	2nd Quarter Low	3rd Quarter High	3rd Quarter Low	4th Quarter High	4th Quarter Low	Annual Share Volume
Toronto Stock Exchange	1974	3.90	3.40	3.45	1.60	1.98	0.95	1.60	0.90	296,809
	1975	2.05	1.00	2.00	1.50	1.80	1.55	1.65	1.26	218,167
	1976	2.10	1.35	2.35	1.60	2.24	1.88	2.85	1.90	377,109
	1977	2.95	2.30	3.05	2.50	3.50	2.70	7.25	4.45	1,270,969
	1978	6.75	5.00	6.12	4.95	8.62	4.85	9.00	6.37	1,254,475

TO THE SHAREHOLDERS:

Once again we are able to report a year of exceptional growth for Page. Gross income was $5,670,000, compared to $2,017,000 in 1977. Oil and gas revenues after royalties increased from $1,918,000 in 1977 to $4,930,000. Funds generated from operations totalled $2,669,000, up from $1,049,000 the previous year. Net earnings were $1,004,000, or 41¢ per share in 1978, compared to $318,000, or 18¢ per share. At year-end, Page's proven net oil reserves totalled 8,570,000 barrels or approximately twice those at December 31, 1977. Proven net gas reserves also approximately doubled to 8.5 billion cubic feet.

We fully expect that the substantial progress made in the last two years will continue in 1979 and in the years to come. We forecast that Page's net oil and gas revenues will exceed $11 million in 1979 or more than double that of the preceding year. We also expect to add significantly to our oil and gas reserves position.

During 1978 the Company participated in a total of 113 wells of which 92.6 wells were net to Page's interest. Much of this activity was in the Kindersley area of west central Saskatchewan, where Page drilled 54 wells at Dodsland and 32 at Buffalo Coulee. The Company plans to drill at least 70 development wells at Dodsland this summer. We expect that it will require at least three years to fully develop Page's holdings in this area.

In the U.S., activity continued to increase. Page participated in 15 wells in Oklahoma and Texas during 1978 and, of these, 10 resulted in gas producers. Activity has now been extended into the Bluebell-Altamont Field in the Uinta Basin of Utah, as a result of a purchase, effective February 22, 1979, of 12 producing oil wells (8.5 net) and a salt water disposal well. The purchase price was $2,398,000 (U.S.). The acquisition also included approximately 25,000 net lease acres and small interests in five additional wells. The production from existing wells at the time of purchase averaged approximately 300 barrels of oil per day. Average daily production has now increased to 600 barrels per day after only comparatively minor expenditures. In addition, Page plans to drill two 10,000′ Wasatch development wells and to re-work the existing wells at an estimated cost of $3,000,000. An independent petroleum engineering firm has estimated proven net recoverable reserves from these properties to be 3,283,000 net barrels of oil and 5,114 mmcf of gas. These estimates are as of March 1, 1979, and are not included in the year-end reserve figures reported elsewhere in this report.

The Company has budgeted capital expenditures in excess of $21 million in order to carry out the largest development and exploration program in the Company's history. A major part of this program can be funded by the Company's present line of bank credit, by additional borrowing on producing properties, and from projected cash flow. To round out the financing package, Page has filed a preliminary prospectus with the various regulatory bodies for public distribution in Canada of a new issue of convertible preferred shares. It is anticipated that this will be a $10 million offering and will be completed by the middle of June.

C. D. Gould, a Vice President of Page and predecessor companies since 1970, retired in late 1978 for health reasons. We are pleased that he has agreed to continue serving as a director. Mr. Gould's position as Manager of Canadian Operations was assumed by Tom Jacobsen who has been a vice-president and a director of Page since 1977. In addition, three new vice-presidents have been appointed. Alex Cathcart joined Page as Vice-President Exploration after many years of experience in various geological and management positions. He was previously the Canadian manager for a sizeable international oil company. C. B. Clark, appointed Vice-President Finance, has a financial and accounting background and was with a large Canadian independent before joining Page. George Patey, Vice-President Production, has 25 years of experience in drilling and production. His last position was Manager of Production for a large Canadian company. We are very pleased that we have been able to obtain the services of these highly qualified people.

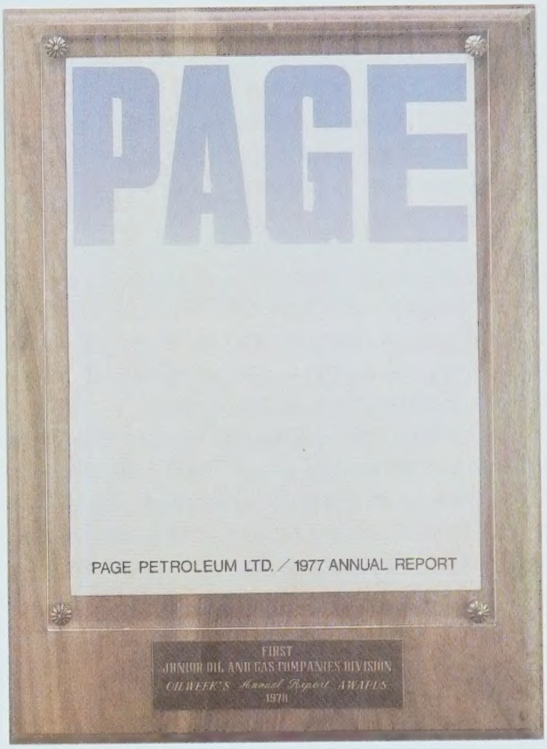
The Company has pursued a policy of committing its resources to oil and gas exploration and development and the acquisition of producing properties, where feasible. However, as reported a year ago, Page made a limited departure from this by entering into the service rig business. This was, in its inception, a means to adequately service the Company's properties in the Kindersley area of Saskatchewan. A Page subsidiary, Northline Well Servicing Ltd., now has five rigs which work for Page's account at Dodsland and Buffalo Coulee, and for others in the Kindersley, Wainwright and Lloydminster areas. Present plans call for the addition of at least four rigs within the next year and a possible expansion to 15 rigs by 1981. Our projections indicate that Northline will make a meaningful contribution to Page's earnings during 1979 and in the years to follow.

We appreciate the continued support and encouragement from our Shareholders and Employees. As we stated in last year's report we believe that the Company's performance will warrant your continued confidence.

Submitted on behalf of the Board of Directors.

Lawton L. Clark

April 27, 1979 President



Page Petroleum Ltd. was honored by having its 1977 Annual Report judged First in the Junior Oil Companies Division of the Oilweek Magazine Annual Report Program. The plaque, shown above, was presented to Page in October of 1978.

PRODUCTION AND RESERVES

The Company's daily oil production increased from an average of 730 barrels per day in 1977 to 1,282 in 1978. As in the previous year, most of this increase was attributable to new wells in Saskatchewan. Gas production, although still comparatively small, increased from a half-million to 1.7 million cubic feet per day. Production is summarized on page 10.

The Company's Canadian properties were evaluated at January 1, 1979 by D&S Petroleum Consultants (1974) Ltd. of Calgary and its U.S. holdings by Sipes, Williamson & Aycock, Inc. of Midland, Texas. Proven Company reserves as of January 1, 1979 were calculated to be 8,570,000 barrels of oil and 8,502 million cubic feet of gas. The future undiscounted cash flow from these proven reserves was calculated to be $145,840,000. Using a 15% discount factor, this cash flow was determined to have a present worth of $51,024,000. All figures are net after deduction of royalties, operating costs and future capital costs. Proven reserves are defined by the consultants as those reserves which are considered to be recoverable to a high degree of certainty at commercial rates assuming present depletion methods and recoveries, operating conditions, price forecasts and costs. These reserves are summarized on page 10.

In February, 1979 the Company acquired an interest in 17 producing wells in the Bluebell-Altamont Field in the Uinta Basin of Utah, together with an interest in approximately 25,000 net lease acres. An evaluation prepared by Sipes, Williamson & Aycock, Inc. as of March 1, 1979 indicates net proven recoverable reserves attributable to these properties to be 3,283,000 barrels of oil and 5,114 million cubic feet of gas. The future undiscounted cash flow from these proven reserves was calculated to be $45,601,000 and, discounted at 15%, this cash flow has a present worth of $20,623,000 (these amounts being expressed in Canadian dollars using a conversion rate of $1 U.S. equal to $1.19 Canadian). These reserves are in addition to those listed above.

EXPLORATION AND DEVELOPMENT

During 1978 Page participated in the drilling of 113 wells, 97 of which were development and 16 exploratory. This program resulted in 88 oil wells (82 net) 13 gas wells (5 net) and 12 dry holes (5 net).

WESTERN CANADA

Once again, Saskatchewan drilling highlighted the year with the completion of 54 (52 net) development oil wells at Dodsland. At Buffalo Coulee the Company drilled 32 development oil wells, one exploratory gas well and one dry hole.

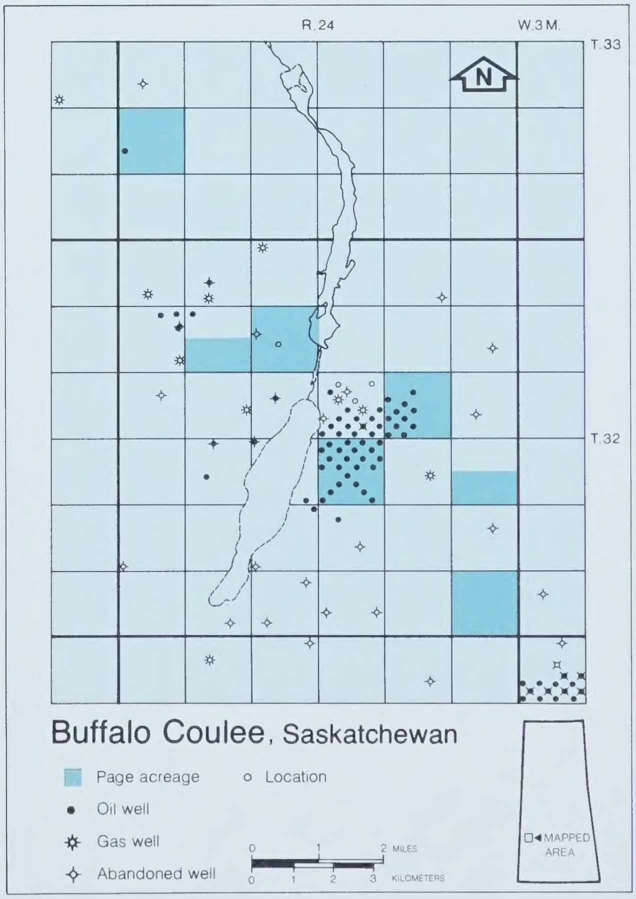
At year end, Page operated 116 wells at Dodsland (114 net) and 36 wholly-owned wells at Buffalo Coulee. The Company also operates 21 net wells in Avon Hills, just south of the Dodsland field. In January, 1979, Page's Saskatchewan production averaged approximately 1,500 barrels of oil per day.

Page plans an active exploratory program in Western Canada during 1979. Several wildcat prospects will be drilled in Alberta and Saskatchewan. At Atlee Buffalo in Alberta, the Company has agreed to drill six 3,200 foot Mississippian tests to earn a net 50% interest in 11,520 acres. The lands are covered by a Pan Alberta Ltd. gas contract and are, therefore, subject to export approval.

Dodsland

The Company's holdings in Dodsland at December 31, 1978, totalled 12,454 net acres of leases and mineral titles. Page operates 116 gross wells (114 net) at Dodsland and plans a 70-well development drilling program in 1979. In early April, Page acquired a 21,760 acre permit east of the Dodsland field at a cost of $1,123,000. It is anticipated that 10 wells will be drilled on this permit in 1979.

The Dodsland field produces 34° gravity oil from the Viking Sand at 2,200 feet. Production rates of the Company's wells average just under 10 barrels per day, but the resulting low royalty rates, long production life, and the present price of $12.76 per barrel assure that this will be an area of major importance to the Company for many years. Lifting and other related costs average approximately $2.50 per barrel. Further oil price increases of $1.00 per



barrel are anticipated on July 1, 1979 and January 1, 1980. The Company's revenues from this field, after deduction of royalties, totalled $2,560,000 in 1978.

Buffalo Coulee

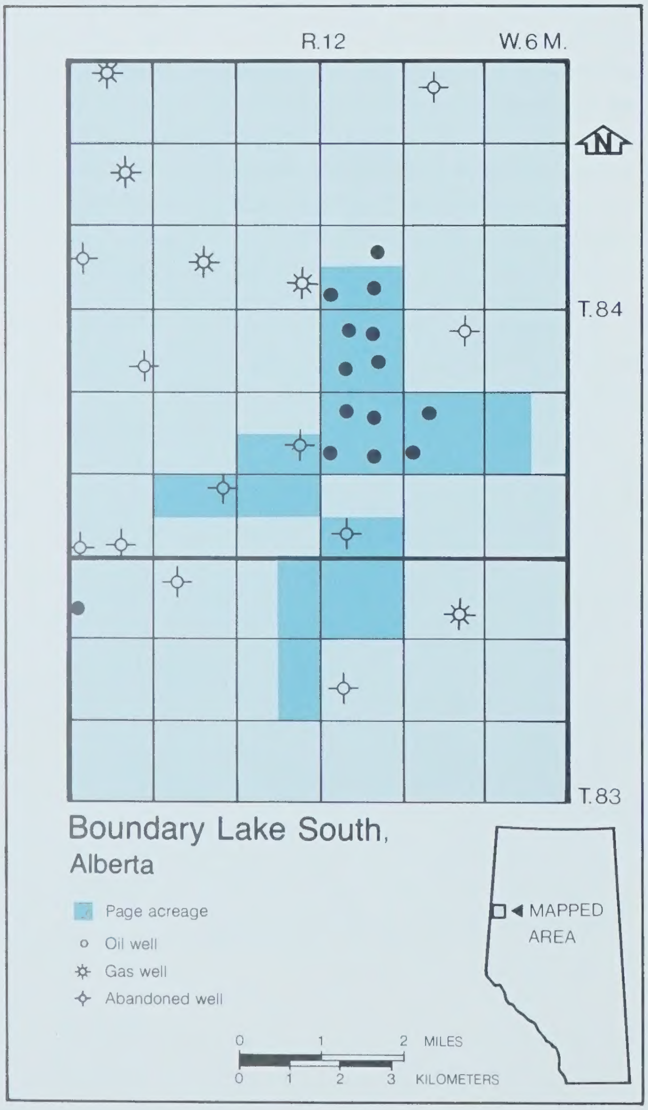
At year end the Company had 3,519 acres of leases at Buffalo Coulee, located west and slightly north of the Dodsland Field. Page now has 29 producing wells in the field. Five wells are shut in pending water flood operations. The wells produce 13.5° gravity oil from the Mississippian Bakken sand at 2,700 feet. The Company plans a secondary recovery program on a portion of the producing area. If successful, the present production of 250 barrels per day is expected to increase to approximately 550 barrels per day. The current wellhead price is $11.45 per barrel. Most of the wells were completed late in 1978 and revenues, after deduction of royalties, were $126,000.

Mitsue

Page has a 0.65% interest in the Mitsue Gilwood Sand A unit covering approximately 5,000 acres. Its unit participation netted the Company $626,000 in 1978. The Mitsue unit produces oil from the Devonian-Gilwood sand. Pressure maintenance by water and gas injection keeps potential producing rates high, although the field production is currently restricted by market allowables. Only minor capital expenditures are projected over the remaining 30 year life of the field.

Boundary Lake Area

At Boundary Lake South, Page owned, at year-end, an average working interest of 24% in 4,960 lease acres. During the year Page participated in the drilling of one dry hole and one successful oil well. Page now has an interest in 12 oil wells in what is known as the Triassic "H" Pool. The wells produce 36° gravity oil from a depth of 4,200 feet. Page's net proven reserves in this field were revised downward from 248,000 barrels to 162,000 barrels at December 31, 1978. It is expected that a successful flood would increase Page's net reserves to just over 500,000 barrels. The planned waterflood is much behind schedule but unit approval has now been obtained and water injection is scheduled to commence in July of 1979. In February of 1979, Page joined with two partners to purchase General American Oil's interest in this field. Cost to Page was $457,000. Page now owns an average working interest of 32.6% or approximately 4 net wells. During 1978 the Company's interest netted $194,000 after deduction of royalties.



UNITED STATES

Page operates in the U.S. through Page Petroleum Inc., a wholly owned subsidiary headquartered in Amarillo, Texas. The Company participated in 15 wells during the year, resulting in 10 gas wells (4 net) and 5 dry holes. Since 1977, the Company has been particularly active in the Texas Panhandle portion of the Anadarko Basin. This area offers multi-pay possibilities with prospective gas zones at depths ranging from 7,000′ to 21,000′. Reserves can be very substantial, with some wells in the area having proven reserves of 10 to 40 billion cubic feet of gas from the Morrow or Hunton formations.

In June of 1978, Page entered into an arrangement with an oil and gas consultant in Houston to develop prospects for Page. The Company participated in only one small gas well in South Texas during 1978; however, several Frio and Upper Wilcox wells will be drilled in 1979 in an area west of Houston. In addition, Page will participate for a 12.5% working interest in two high-risk gas prospects in Louisiana, both offering a possibility of large reserves. One of these, the Russo Prospect, is in St. Bernard Parish and the other, the Valentine Dome Prospect, is located in LaFourche Parish.

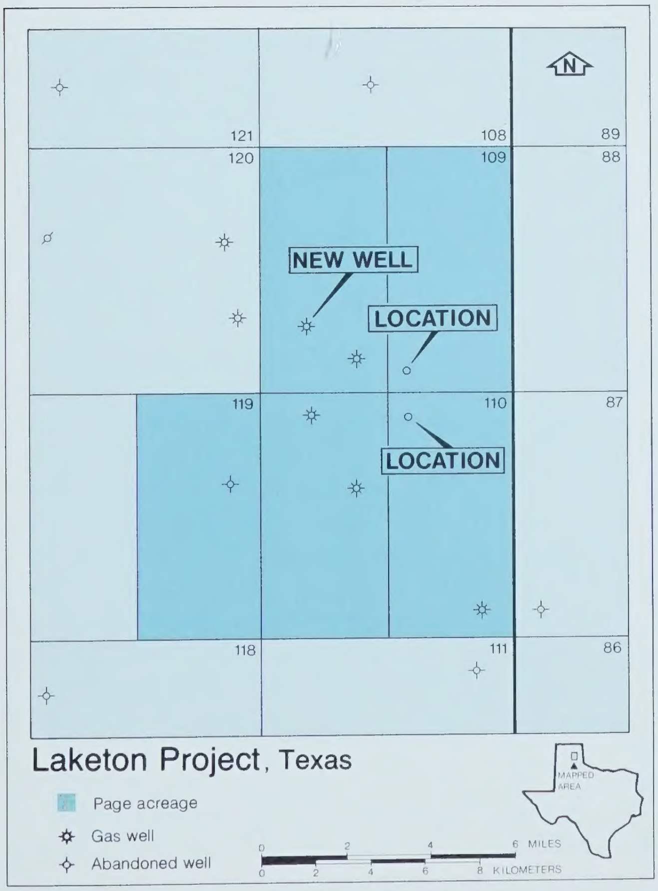
Effective May 1, 1979, Page will also be represented by a part-time consultant in Midland, Texas. This will increase Page's exposure to drilling in the Permian Basin of Texas and New Mexico.

At year end the Company had interests in five shut-in gas wells in the Texas Panhandle and one in northeast Oklahoma. All are expected to be connected by June 1st. Page's average working interest of 20% in these wells is expected to add an additional $100,000 per month income after royalties.

U.S. production, as a whole, netted Page $840,000, or approximately 17% of the Company's total net oil and gas revenues. It is expected that U.S. revenues will be approximately 40% of combined income in 1979.

Laketon Prospect

Through purchase effective March 1, 1978, Page acquired a 100% working interest in a 7,700′ Granite Wash gas well in the Laketon field of Gray County, Texas. Purchase price was $1.3 million, payable in semi-annual installments over a two year period. After Page recovers costs of the purchase, including interest and operating costs, Page's interest reverts to 20%. The well currently produces approximately 1.4 mmcf of gas and 30 barrels of condensate per day. Two additional zones in the Granite Wash are also prospective. An offset location (Page Petroleum Inc. #1 Delp) was commenced in December of 1978, and drilled to a total depth of 10,000 feet. The well was completed in March of 1979 in one of several potential Granite Wash zones. The well flowed without stimulation at rates of over 6 million cubic feet of gas per day. Although Page operates the well, it incurs no costs or has any interest until payout, at which time the Company will own a 20% working interest. Page and partners will drill at least two additional offsets.



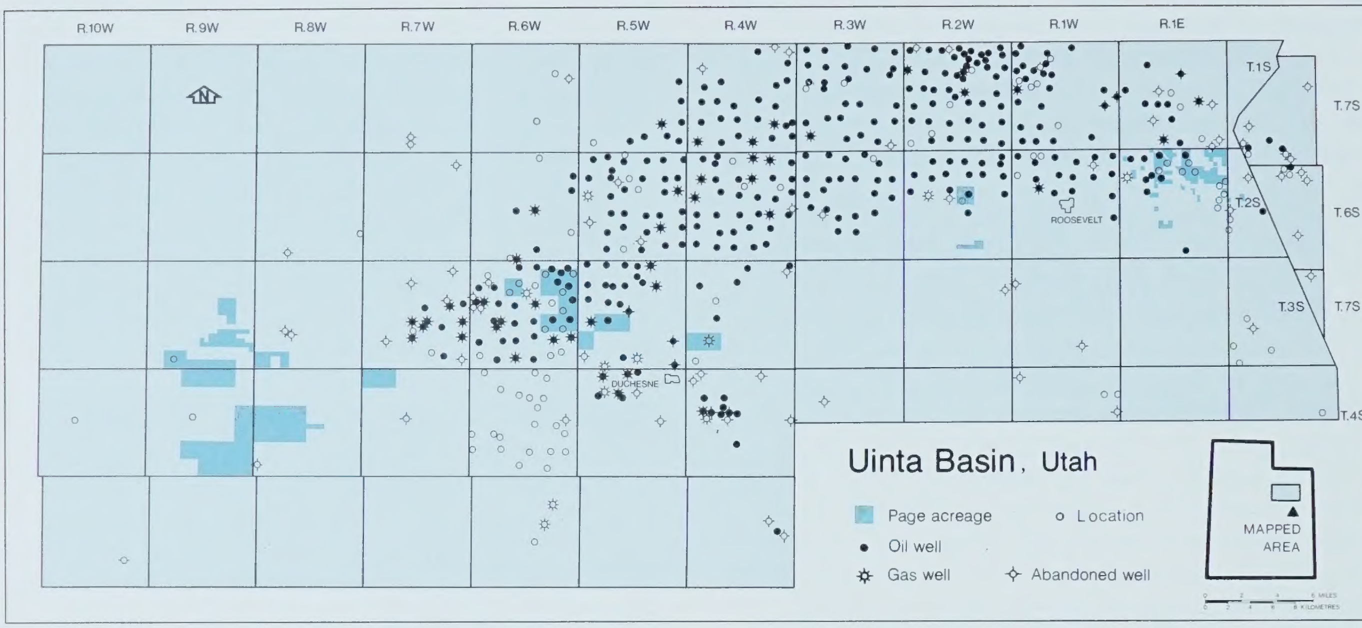
Laketon Project, Texas

Glazier Southeast and Jones Ranch Prospects

Page acquired 7,200 acres in the Glazier area of northeastern Hemphill County through farmout and lease purchase. Three test wells were drilled at no cost to Page on three separate prospects on the block. A 13,000 foot Lower Morrow test (#1-20 Jones Estate) was plugged and abandoned. The #1-11 Jones Estate was drilled to 12,000 feet and was plugged back to 7,500 feet as a Douglas sand gas producer. The #1 Jones Ranch was drilled to 7,950 feet and completed as a small Douglas sand gas well. It is likely that one follow-up Douglas sand well will be drilled. Four sections owned by Page (25%) and partners are prospective for deeper zones.

Washita Creek, Texas

A well completed in early 1978 resulted in what seemed to be a significant Upper Morrow sand gas discovery. Well logs indicated 36′ of net pay between the depths of 13,823′ and 13,864′. When placed on production the well was disappointing, producing only a million cubic feet of gas per day and decreasing after several months to less than half that amount. A step-out well a mile and a quarter northwest of the discovery resulted in a dry hole. Page (20%) and partners are planning another location, this time in the northeast quarter of section 8 in an attempt to find a more permeable zone.



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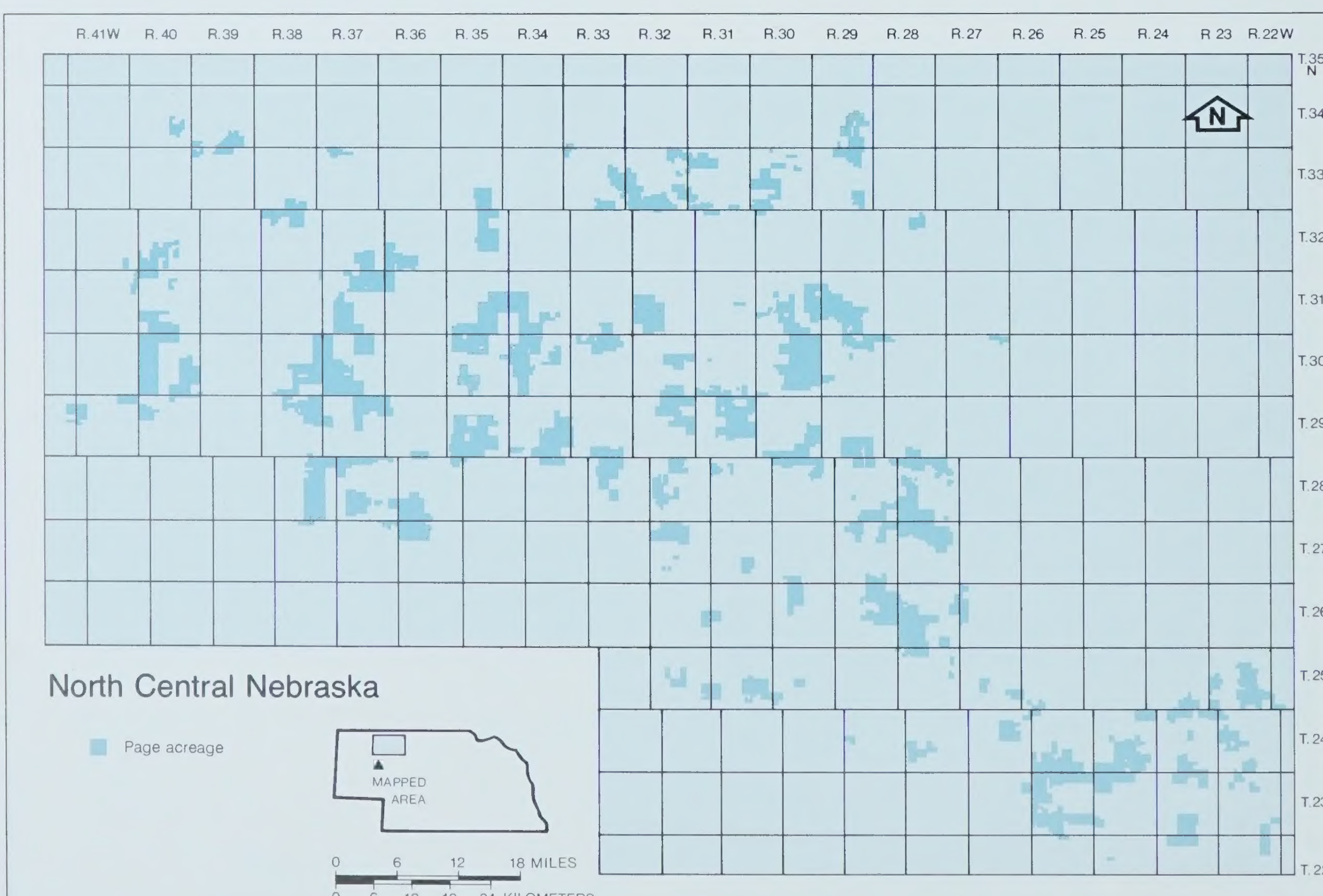
DUCHESNE
ROOSEVELT
Uinta Basin, Utah
Page acreage
Location
Oil well
Gas well
Abandoned well
MAPPED AREA



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North Central Nebraska
Page acreage
MAPPED AREA
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0 6 12 18 24 KILOMETERS

Bluebell-Altamont Field, Utah

Effective February 22, 1979, Page acquired 27,176 acres of oil and gas leases within, and adjacent to, the Bluebell-Altamont Field in the Uinta Basin of Utah. Included in this acquisition were interests in 17 oilwells, comprising working interests before payout of 100% in five wells, working interests in seven wells ranging from 49.9% to 98.29% and minor interests in five wells ranging from 1.5% to 6.2%. After payout of each well, the Company's working interest will revert to 75% of that noted above, or a total of 8.5 net wells before payout and 6.4 net wells after payout. Cost to Page was $2,398,000 (U.S.).

Six undrilled sections in which the Company has interests ranging from 50% to 100% are believed to be semi-proven. One of these is presently being drilled by a third party at no cost to the Company. The Company will receive a 25% working interest after payout. The Company plans to drill two wells on the undrilled sections in 1979 and will rework most of the existing wells in which it holds a major interest. The principal producing zone is the Wasatch formation at a depth of approximately 10,000 feet. A secondary producing target is the Green River formation which is present just above the Wasatch. It is anticipated that the well spacing can be changed from 640 acres to 320 acres, and thus provide the Company with up to 12 additional development locations. Included in this acquisition are 27 sections of exploratory acreage, of which seven sections will expire in the third quarter of 1979 if not drilled. An exploratory well may be drilled in 1980 on the remaining lands.

In addition to the above lands, the Company has a 25% interest in a well now awaiting completion in Section 21, Twp. 3S, Rge. 5W. The Company will earn a 25% interest before payout and a 12½% working interest after payout. The Company has a 9.375% working interest in Section 29, Twp. 3S, Rge. 4W. The Company will participate in a rework of an existing cased well on this section and by so doing, will have the option to earn a 20% working interest in the adjacent section 30 by paying 25% of the cost of drilling a 10,500′ Wasatch test well.

Nebraska

In April of 1979, Page acquired a 20% interest in 386,000 acres of oil and gas leases in north central Nebraska at a cost of $270,000. The leases expire in 1989 and are subject to a 12½% landowners royalty and a 5½% overriding royalty. The acreage, mostly in Cherry County, gives Page a significant representation on a shallow Niobrara gas play that has recently expanded from northeastern Colorado into Kansas and now northerly into Nebraska. The potential area for Niobrara gas is believed by industry to extend across the Page lands into South Dakota.

Several million acres of leases have been acquired by large corporations in close proximity to the Page et al lands during the past 18 months. One of these companies, Kansas-Nebraska Natural Gas Co., has announced the first 26 locations of a planned 60 to 100 well program slated for 1979 in the Niobrara gas play. Ten of these locations are situated in Grant County immediately south of Page's acreage. The prime stimulants in this low cost, low productivity, shallow gas play are good market accessibility, increased gas prices and new fracturing methods which enhance productivity.

LAND HOLDINGS
DECEMBER 31, 1978

	Working Interest		Royalty Interest	
	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA				
Alberta	81,651	18,674	32,934	681
British Columbia	1,773	582	—	—
Saskatchewan	36,809	31,120	—	—
Arctic Islands	603,779	32,634	—	—
	724,012	83,010	32,934	681
UNITED STATES (1)				
Louisiana	5,341	952	—	—
Oklahoma	2,800	573	—	—
Texas	21,853	4,395	2,560	22
	29,994	5,920	2,560	22
UNITED KINGDOM				
Onshore	102,660	23,612	—	—
Offshore	25,279	655	—	—
	127,939	24,267	—	—
	881,945	113,197	35,494	703

(1) Excludes 236,194 gross acres (29,524 net acres) of priority applications for Leases in Alaska.

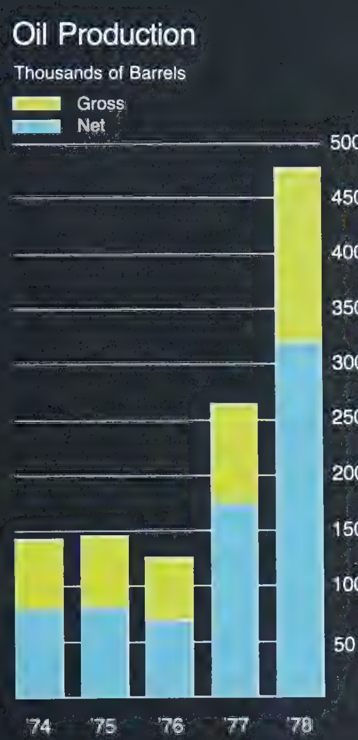
PRODUCTION

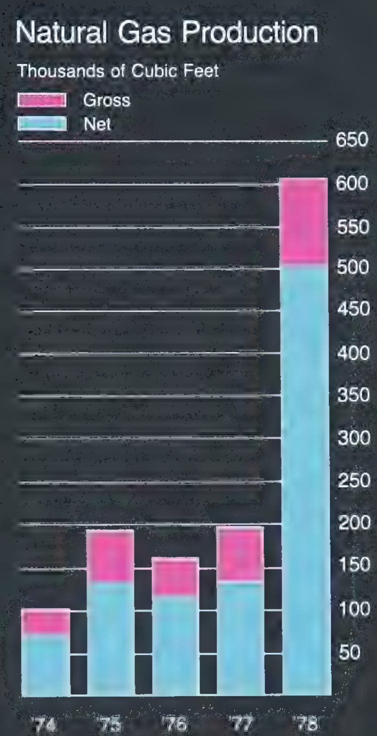
	1978		1977	
	Gross	Net	Gross	Net
CRUDE OIL AND LIQUIDS *(barrels)*				
Alberta	135,582	73,401	129,647	70,421
Saskatchewan	325,842	257,351	130,809	97,870
Texas	6,331	4,884	5,896	4,161
	467,755	335,636	266,352	172,452
Average daily production	1,282	920	730	472
Average price per barrel — Canada		$ 11.89		$ 9.76
— U.S.A.		$ 16.03		$ 13.74
NATURAL GAS *(mcf)*				
Alberta	136,611	92,886	102,327	66,514
Texas	470,731	410,858	92,611	68,985
	607,342	503,744	194,938	135,499
Average daily production	1,664	1,380	534	371
Average price per mcf — Canada		$ 1.59		$ 1.30
— U.S.A.		$ 1.86		$ 1.04

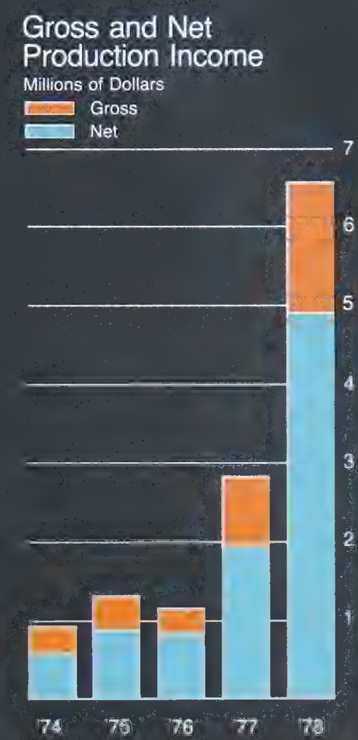
RESERVES

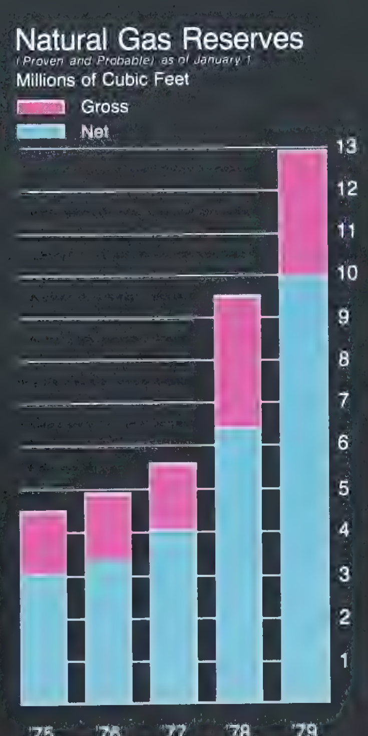
	Jan. 1, 1979		Jan. 1, 1978	
	Gross	Net	Gross	Net
OIL — *(thousands of barrels)*				
proven — Alberta	1,563	941	1,801	1,095
— Saskatchewan	8,548	7,604	3,892	3,274
— Texas	35	25	27	19
	10,146	8,570	5,720	4,388
probable — Alberta	522	434	1,379	1,158
— Saskatchewan	2,419	2,257	136	82
— Texas	9	7	—	—
Total Oil	13,096	11,268	7,235	5,628
GAS — *(mmcf)*				
proven — Alberta	3,302	2,390	2,880	1,890
— Saskatchewan	2,378	2,319	—	—
— Texas	4,932	3,654	3,896	2,476
— Oklahoma	161	139	—	—
	10,773	8,502	6,776	4,366
probable — Alberta	44	32	13	12
— Texas	2,172	1,549	2,800	2,072
Total Gas	12,989	10,083	9,589	6,450

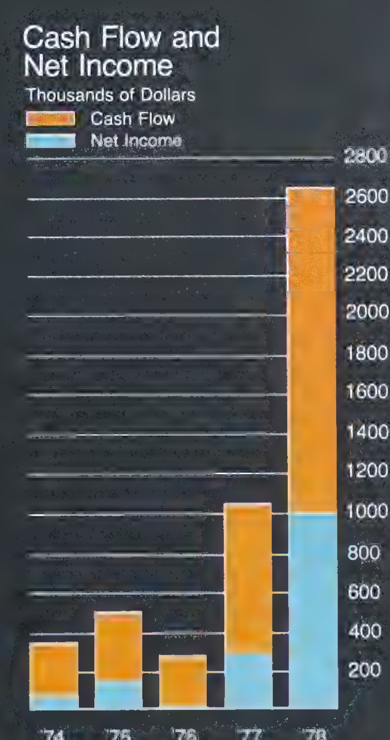
OPERATING AND FINANCIAL TRENDS











FINANCIAL REVIEW

Consolidated net earnings for 1978 totalled $1,004,000, representing 41 cents per common share after allowing for dividends on the senior shares. This represents an increase of 215% from the $318,000 or 18 cents per common share in 1977. Gross income, at $5,670,000, was up 181% from $2,017,000 in 1977. Cash flow from operations amounted to $2,669,000, an increase of 154% from $1,049,000 in 1977.

The Company's 1978 capital expenditures amounted to $11,358,000. Oil and gas exploration and development expenditures aggregated $10,059,000, a 286% increase over the $2,606,000 expended in 1977. Of the total oil and gas expenditures, $6,357,000 (63%) was spent in Canada and $3,702,000 (37%) was spent in the United States. The Company spent $667,000 for the acquisition and up-grading of five service rigs following the commencement of well-servicing operations in March, 1978. The capital expenditure program was financed through cash flow, bank borrowings and the issue of Series A Preferred Shares referred to below.

At the Annual and Special General Meeting held on May 15, 1978, the shareholders approved the creation of 1,000,000 Preferred Shares with a par value of $10 each. In June, 1978, the Company issued 500,000 of these preferred shares, designated 7% Cumulative Redeemable Convertible Preferred Shares, Series A, for net proceeds to the Company of $4,750,000.

In February, 1979, a secured $20,000,000 line of credit was arranged with the Company's bankers and the existing production loans were transferred under this new line of credit. This line of credit, which is to be reviewed every six months, will provide a base for an on-going development program.

In the first quarter of 1979, the common shares of the Company, into which the Series A Preferred Shares were convertible, had traded at prices which enabled the Company to redeem the Series A Preferred Shares. On March 30, 1979 the Company called for redemption effective May 1, 1979 at a redemption price of $10.50 per Preferred Share all of the Series A Preferred Shares outstanding. By April 30, 1979 495,285 of such Preferred Shares had been converted into 717,396 common shares and the remaining 4,715 Preferred Shares were redeemed on May 1, 1979. The Preferred Shares converted and redeemed reverted to the status of authorized and unissued preferred shares as a class.

On April 27, 1979, the Company filed a preliminary prospectus with certain securities commissions and similar authorities for a new issue of convertible preferred shares in Canada only. It is anticipated that this issue will come to market around the first of June. The definitive terms of the issue have not yet been finalized but, following the conversion and redemption of the Series A Preferred Shares referred to above, the Company can issue up to 1,000,000 of these shares.

The U.S. Securities and Exchange Commission, in 1978, announced its intention to develop a new method of accounting for oil and gas companies, which is to be implemented in 1981. Until that time, oil and gas companies may continue to use either the Successful Efforts method or Full Cost method of accounting. The introduction of the new method, referred to as Reserve Recognition Accounting, will require that a number of valuation problems be overcome before the "actual value" of oil and gas reserves can be recorded in the financial statements. The new rules will not affect the Company's oil and gas reserves or cash flow but the retroactive and future impact on earnings still has to be measured.

PAGE PETROLEUM LTD.

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
INCOME		
Oil and gas sales, net of royalties	$4,930,000	$1,918,000
Well servicing	610,000	—
Drilling arrangements and other fees	—	86,000
Investment and other income	130,000	13,000
	5,670,000	2,017,000
EXPENSES		
Production	1,340,000	469,000
Well servicing	409,000	—
General and administrative	655,000	276,000
Interest on long-term debt	742,000	370,000
Depreciation	471,000	93,000
Depletion	634,000	278,000
Amortization of foreign exploration costs	51,000	64,000
Amortization of deferred financing charges	26,000	27,000
	4,328,000	1,577,000
EARNINGS BEFORE INCOME TAXES	1,342,000	440,000
INCOME TAXES (note 5)		
Current	(145,000)	(147,000)
Deferred	483,000	269,000
	338,000	122,000
NET EARNINGS	$1,004,000	$ 318,000
NET EARNINGS Per common share	$ 0.41	$ 0.18

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
Retained earnings, beginning of year	$ 615,000	$ 297,000
Net earnings	1,004,000	318,000
	1,619,000	615,000
Dividends on preferred shares	183,000	—
Retained earnings, end of year	$1,436,000	$ 615,000

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1978 and 1977

	1978	1977
ASSETS		
CURRENT ASSETS		
Cash	$ —	$ 286,000
Accounts receivable	1,550,000	1,566,000
Note receivable	960,000	—
Provincial royalty tax credit	171,000	146,000
Inventory, at cost	226,000	19,000
Prepaid expenses	67,000	7,000
	2,974,000	2,024,000
PROPERTY, PLANT AND EQUIPMENT, AT COST (note 2)	21,943,000	10,586,000
Less: Accumulated depreciation, depletion and amortization	2,688,000	1,533,000
	19,255,000	9,053,000
OTHER ASSETS		
Real estate held for resale, at cost	1,140,000	—
Drilling and exploration deposits, at cost	109,000	65,000
Unamortized deferred financing charges	332,000	—
	1,581,000	65,000
	$23,810,000	$11,142,000

Approved on behalf of the Board,

LAWTON L. CLARK, Director

T. J. JACOBSEN, Director

The accompanying notes are an integral part of these consolidated financial statements.

	1978	1977
LIABILITIES		
CURRENT LIABILITIES		
Cash in bank less outstanding cheques	$ 1,564,000	$ —
Bank operating loan	—	150,000
Accounts payable and accrued liabilities	538,000	1,178,000
Current portion of long-term debt (note 3)	758,000	28,000
	2,860,000	1,356,000
LONG-TERM DEBT (note 3)	10,182,000	5,547,000
DEFERRED INCOME TAXES	1,158,000	675,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 4)		
Authorized		
1,000,000 Preferred Shares with a par value of $10		
5,000,000 Common Shares without par value		
Issued		
500,000 7% Cumulative Redeemable Convertible Preferred Shares, Series A	5,000,000	—
2,065,418 Common Shares (1,999,252 shares in 1977)	2,924,000	2,747,000
Less: Unpaid subscriptions	—	48,000
	7,924,000	2,699,000
Contributed surplus	250,000	250,000
Retained earnings	1,436,000	615,000
	9,610,000	3,564,000
	$23,810,000	$11,142,000

PAGE PETROLEUM LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
SOURCES OF FUNDS		
Net earnings	$ 1,004,000	$ 318,000
Charges to earnings not involving funds:		
Depreciation, depletion and amortization	1,182,000	462,000
Deferred income taxes	483,000	269,000
Funds generated from operations	2,669,000	1,049,000
Proceeds from issuance of common shares	177,000	1,463,000
Proceeds from issuance of preferred shares	5,000,000	—
Increase in long-term debt	6,668,000	2,988,000
Proceeds from notes receivable	48,000	118,000
Total sources of funds	14,562,000	5,618,000
USES OF FUNDS		
Acquisition of Cowzanoil Ltd. and Magnolia Petroleum Ltd.	—	975,000
Less: Working capital acquired	—	13,000
	—	962,000
Dividends on preferred shares	183,000	—
Net additions to property, plant and equipment	11,358,000	2,929,000
Additions to other assets	1,542,000	29,000
Repayment and current maturities of long-term debt	2,033,000	1,121,000
Total uses of funds	15,116,000	5,041,000
Increase (decrease) in working capital	(554,000)	577,000
Working capital, beginning of year	668,000	91,000
Working capital, end of year	$ 114,000	$ 668,000
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash	$ (286,000)	$ 192,000
Accounts receivable	(16,000)	1,118,000
Notes receivable	960,000	—
Provincial royalty tax credit	25,000	48,000
Inventories	207,000	19,000
Prepaid expenses	60,000	(6,000)
	950,000	1,371,000
Increase (decrease) in current liabilities		
Cash in bank less outstanding cheques	1,564,000	—
Bank operating loan	(150,000)	150,000
Accounts payable and accrued liabilities	(640,000)	777,000
Current maturities of long-term debt	730,000	(133,000)
	1,504,000	794,000
	$ (554,000)	$ 577,000

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Page Petroleum Ltd. and its subsidiaries all of which are wholly-owned.

Effective April 1, 1977, the Company acquired all of the outstanding shares of Cowzanoil Ltd., and Magnolia Petroleum Ltd. in exchange for 367,554 shares of the Company valued at $956,000 (note 4). The Company's consolidated earnings include the earnings of these subsidiaries since April 1, 1977. Details of the acquisitions, which have been accounted for by the purchase method are as follows:

Working capital	$ 13,000
Book value of other net assets	(1,000)
	12,000
Excess of assigned value over book value of acquired net assets	962,000
Total cost of investment	$974,000

The excess of assigned value over book value has been allocated to petroleum and natural gas leases and rights and additional depletion has been provided accordingly.

The accounts of foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the year end. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the year.

(b) Full cost method of accounting

The Company follows the full cost method of accounting for its operations wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, cost of drilling both productive and non-productive wells and administrative expenses related to exploration activities. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of profit or loss.

Exploration and development costs are accumulated in two major cost centres:

1. North America — Canada and the United States
2. Northwestern Europe — United Kingdom and the North Sea

Costs associated with the North America cost centre are depleted using the unit of production method based on estimated recoverable North America reserves as determined by independent and Company engineers. The depletion rate per equivalent barrel of oil was $1.15 (1977 — $.955).

Effective January 1, 1974 costs associated with the Northwestern Europe cost centre are being amortized in line with the remaining terms of existing leases. Should exploratory efforts be successful, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred and will be depleted on the unit of production method. If all of the exploratory rights are surrendered, the balance of the unamortized exploration costs will be charged to income (included in amortization). At December 31, 1978 costs remaining to be amortized amount to $25,000.

(c) Joint venture accounting

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(d) Limited partnerships

The Company is involved in several limited partnerships for the purpose of exploring for oil and gas. The Company's investment in these limited partnerships is reflected on a proportionate consolidation basis.

(e) Depreciation

Depreciation of production equipment is provided for on the unit of production method. Depreciation of sundry equipment is computed on the diminishing balance method at rates varying from 20% to 30%.

Well servicing equipment is amortized based on the number of hours the equipment is used. The hourly rate will amortize the cost, less estimated salvage values, over the estimated economic service lives of the equipment.

Maintenance and repairs are charged to earnings as incurred and major renewals and betterments are capitalized.

(f) Income Taxes

The Company follows the tax allocation method of accounting for income taxes whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming capital cost allowances and exploration, development and lease acquisition costs in excess of the related depreciation and depletion provided in the financial statements.

(g) Unamortized deferred financing charges

Deferred financing charges in connection with the issue of the 7% Cumulative Redeemable Convertible Preferred Shares in the amount of $358,000 are being amortized using the straight line method over seven years.

(h) Net earnings per Common share

Basic net earnings per Common share is based on the weighted average number of Common shares outstanding during the year (1978 — 2,027,709; 1977 — 1,811,660).

The conversion of the preferred shares and the exercise of share options would not be dilutive.

2. PROPERTY AND EQUIPMENT

	Assets, at cost	Accumulated Depletion, Depreciation and Amortization	Net Investment
December 31, 1978			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	$10,510,000	$ 980,000	$ 9,530,000
United States	4,590,000	548,000	4,042,000
Northwestern Europe	230,000	205,000	25,000
	15,330,000	1,733,000	13,597,000
Well servicing equipment	667,000	58,000	609,000
Production equipment	5,176,000	722,000	4,454,000
Sundry	770,000	175,000	595,000
Total December 31, 1978	$21,943,000	$2,688,000	$19,255,000
December 31, 1977			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	$ 6,824,000	$ 881,000	$ 5,943,000
United States	1,249,000	135,000	1,114,000
Northwestern Europe	207,000	155,000	52,000
	8,280,000	1,171,000	7,109,000
Production equipment	2,168,000	299,000	1,869,000
Sundry	138,000	63,000	75,000
Total December 31, 1977	$10,586,000	$1,533,000	$ 9,053,000

3. LONG-TERM DEBT

	1978		1977	
	Due within one year	Long-term Portion	Due within one year	Long-term Portion
Finance contracts payable, secured by certain equipment	$ 25,000	$ 21,000	$28,000	$ 63,000
$9^1/_2$% note payable, secured by certain oil and gas properties	649,000	634,000	—	—
$9^1/_2$% - 12% notes payable secured by real estate held for resale	—	1,173,000	—	—
Bank loan bearing interest at $1^1/_2$% over a Canadian banks minimum lending rate, secured by an assignment of certain accounts receivable and service rigs	84,000	375,000	—	—
Bank production loans	—	7,923,000	—	5,412,000
Development loans	—	56,000	—	67,000
	$758,000	$10,182,000	$28,000	$5,542,000

Development loans represent prepayments for oil and gas production in the United States with repayments to be made from the proceeds of production. The oil repayment is to be made at $2 per barrel sold and the gas at 25% of 75% of net gas revenue received. At present levels of production the debt is being retired at $1,000 per month.

The bank production loans are secured by a general assignment of accounts receivable and certain specific oil and gas properties and bear interest at 1% over a Canadian bank's minimum lending rate. Estimated principal repayments on the loans for the next five years are as follows:

1979 — $2,850,000
1980 — $2,039,000
1981 — $1,360,000
1982 — $ 936,000
1983 — $ 540,000

No portion of the bank production loans and development loans have been classified as a current liability as all of these loans are secured by, and repayable from, future production proceeds and will not require the use of existing current assets.

4. SHARE CAPITAL

During 1978 the Company increased its authorized share capital by creating 1,000,000 Preferred Shares with a nominal or par value of $10 each, which as a class are issuable in one or more series.

In June, 1978, the Company issued for cash 500,000 7% Cumulative Redeemable Convertible Preferred Shares, Series A ($10 par value), the net proceeds to the Company being $4,750,000.

Each Series A Preferred Share will be convertible into common shares of the Company on the following basis:

If Converted during the period	Number of Common shares issuable on conversion
June 6, 1978 to June 15, 1983	1.449
June 16, 1983 to June 15, 1986	1.190
June 16, 1986 to June 15, 1988	1.042

The Series A Preferred Shares will not be redeemable on or prior to June 15, 1983 unless the common shares of the Company have traded for twenty days on The Toronto Stock Exchange at a price equivalent to at least One Hundred and Fifty percent of the then equivalent conversion price, calculated on a weighted average basis, in which event, the shares will be redeemable at $10.50 per share. The Series A Preferred Shares will be redeemable commencing on June 16, 1983 at a price of $10.50 per share if redeemed on or prior to June 15, 1984, the redemption premium reducing by $0.10 per share on June 16, 1984 and each June 16 thereafter, and if redeemed on or after June 16, 1988 the redemption price will be $10.00 per share, plus in each case any dividends that have been declared but are unpaid.

The following changes in common shares of the Company occurred in 1978 and 1977:

	1978		1977	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance, beginning of year	1,999,252	$2,747,000	1,410,086	$1,284,000
Conversion of 7% convertible subordinated debentures	2,000	5,000	146,400	366,000
Exercise of employee's stock options	64,166	172,000	50,000	76,000
Acquisition of Cowzanoil Ltd.	—	—	289,076	751,000
Acquisition of Magnolia Petroleum Ltd.	—	—	78,478	204,000
Acquisition of producing properties	—	—	25,212	66,000
Balance, end of year	2,065,418	$2,924,000	1,999,252	$2,747,000

Common shares of the Company are offered to key employees under a share option plan. The options are exercisable during the term of employment, one-third annually on a cumulative basis. Details of options outstanding are as follows:

		Options Outstanding	
Date granted	Price	1978	1977
July 3, 1977	$1.52	—	20,000
July 19, 1977	2.59	—	15,000
September 23, 1977	2.59	30,000	55,000
December 1, 1977	3.79	5,000	5,000
July 4, 1978	4.21	11,167	—
August 22, 1978	6.08	5,000	—
		51,167	95,000

5. DEFERRED INCOME TAXES

Deferred income tax expense results from timing differences in the recognition of certain expenditures for tax and financial statement purposes. The sources of these differences in 1978 and 1977 and the tax effect on each were as follows:

	1978	1977
Excess of tax capital cost allowance over book write-off for depreciable assets	$(184,000)	$ 31,000
Excess of tax write-off over book write-off for exploration expenses, intangible drilling expenditures and lease acquisition costs	693,000	238,000
	509,000	269,000
Provincial royalty tax credit on royalties not deductible for federal tax purposes	(171,000)	(147,000)
	$ 338,000	$122,000

Based on currently anticipated expenditures and operations, it is not expected that the deferred income tax balance will be substantially reduced in the succeeding two years.

The provision made for income taxes in 1978 and 1977 is lower than the amount which would have been expected if it were assumed that the reported pre-tax earnings were subject to the Canadian Federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided were as follows:

	1978		1977	
	Amount	Percent of Pre-tax Earnings	Amount	Percent of Pre-tax Earnings
Computed "expected" tax expense	$617,000	46	$202,000	46
Increase (decrease) in taxes resulting from				
Non-deductible crown royalties	610,000	46	396,000	90
Earned depletion allowance	(182,000)	(14)	(109,000)	(25)
Resource allowance	(399,000)	(30)	(221,000)	(50)
Provincial credits — net	(50,000)	(4)	(35,000)	(8)
Provincial royalty tax credit	(171,000)	(13)	(147,000)	(33)
Other — net	(87,000)	(6)	36,000	8
	$338,000	25	$122,000	28

6. REMUNERATION OF DIRECTORS AND OFFICERS

The total remuneration paid to directors and officers of the Company amounted to $247,000 (1977 — $197,000). Remuneration consists of salary and Company contributions to a deferred profit sharing plan.

7. SUBSEQUENT EVENTS

(a) Subsequent to December 31, 1978, the Company arranged a $20,000,000 production loan line of credit with a Canadian chartered bank. This line of credit, to which the bank production loans outstanding on December 31, 1978 were transferred, is secured by a general assignment of accounts receivable and certain undertakings and specific assignments with respect to certain oil and gas properties and bears interest at $3/4$ of 1% above the bank's minimum lending rate. The amount available under the credit will reduce and/or payments will be made at a minimum monthly rate of $333,000 commencing March, 1979.

(b) By March 12, 1979, the common shares of the Company had traded on The Toronto Stock Exchange at a daily weighted average price per share for at least 20 trading days in excess of 150% of the current conversion price per common share at which the 7% Cumulative Redeemable Convertible Preferred Shares Series A are convertible into common shares. As a result, the Series A Preferred Shares may now be redeemed at any time at the option of the Company at the redemption prices shown in note 4.

AUDITORS' REPORT

To the Shareholders
Page Petroleum Ltd.

We have examined the consolidated balance sheets of Page Petroleum Ltd. as at December 31, 1978 and 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and 1977 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Canada
March 12, 1979

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

	1978	1977	1976
Gross Income	**$5,670,000**	$2,017,000	$720,000
Cost & Expenses	**4,306,000**	1,577,000	768,000
Current Income Tax	**(145,000)**	(147,000)	(99,000)
Deferred Income Tax	**483,000**	269,000	44,000
Net Income	**1,004,000**	318,000	7,000
Net Income — per common share	**$ .41**	$ .175	$ .005

Further details of the above summary of operations are given on page 24 of this report.

1978 Compared to 1977

Total revenues increased $3,653,000 or 181% over 1977. The majority of this increase was in the oil and gas segment where higher product prices and production volumes resulted in increased operating revenues of $3,012,000. The increased volumes resulted from a 79 well development program carried out in 1978 in the Dodsland and Buffalo Coulee areas of west central Saskatchewan and new production from the Laketon Field of Gray County, Texas. The commencement of well servicing operations early in 1978 contributed $610,000 to revenues.

The increase in production costs were attributable primarily to the lifting costs associated with the higher levels of production and costs incurred in re-working wells to maintain production in the older fields. Operating costs were also included for well servicing operations for the first time in 1978. General and administrative costs also increased as a result of the higher level of operations.

The increase of $721,000 in depletion, depreciation and amortization reflects the higher levels of production and the impact of the high levels of exploration and development activities carried out in 1977 and 1978.

Interest costs were up $372,000 in 1978 reflecting the costs related to financing the expanded capital program as well as the generally higher interest rates evident in 1978.

Income tax expense did not change materially as a percentage of pre-tax earnings, being 25% in 1978 compared with 28% in 1977. The amount receivable from the Alberta Government for a portion of the Crown royalties paid to them during 1978 amounted to $171,000 compared with $147,000 in 1977.

1977 compared with 1976

Gross income increased $1,297,000 or 180% from $720,000 in 1976, to $2,017,000 in 1977. Net oil and gas sales increased by $1,209,000 while other income increased by $88,000. The acquisition of Cowzanoil Ltd., and Magnolia Petroleum Ltd., effective April 1, 1977, added $935,000 to gross income in the current year. Higher product prices added another $147,000. The increase in "other income" in 1977 was attributable to the earning of management fees in the United States.

Cost and expenses rose by $809,000 or 105% from $768,000 in 1976 to $1,577,000 in 1977. Production expenses increased by $337,000, almost entirely due to the acquired companies. General and administrative expenses increased by $86,000, because of the higher level of activity during 1977. Interest expense increased by $151,000 because of increased debt, owing to the financing of 40 wells drilled in Saskatchewan and the assumption of debt of the acquired companies, along with higher interest rates during 1977.

Provisions for depreciation, depletion and amortizations increased by $235,000, or 103%, owing to the greater volume of production.

The Company was not required to pay income taxes during the periods under review. The amount of credit indicated under "current taxes" represents a receivable from the Alberta Government for a portion of the crown royalties paid to them during the year. The amount receivable in 1977 was $147,000 as compared with $99,000 in 1976. The provision for deferred income taxes increased by $225,000 from $44,000 in 1976, to $269,000 in 1977 in line with higher accounting taxable income, leaving net income for the two years under review of $318,000 in 1977 and $7,000 in 1976.

FIVE YEAR STATISTICAL SUMMARY

FINANCIAL

	1978	1977	1976	1975	1974
INCOME					
Oil and gas sales	$ 6,682,000	$2,914,000	$1,240,000	$1,304,000	$ 882,000
Royalties paid	1,752,000	996,000	531,000	547,000	356,000
Net oil and gas sales	4,930,000	1,918,000	709,000	757,000	526,000
Well servicing income	610,000	—	—	—	—
Interest and other income	130,000	99,000	11,000	67,000	148,000
GROSS INCOME	5,670,000	2,017,000	720,000	824,000	674,000
Production expenses	1,340,000	469,000	132,000	84,000	50,000
Well servicing expenses	409,000	—	—	—	—
General and administrative (net)	655,000	276,000	190,000	190,000	197,000
Interest expenses	742,000	370,000	219,000	146,000	136,000
Current income taxes	(145,000)	(147,000)	(99,000)	(101,000)	(61,000)
FUNDS GENERATED from operations	2,669,000	1,049,000	278,000	505,000	352,000
Per common share	1.23	.58	0.20	0.36	0.25
Depreciation, depletion, amortization	1,182,000	462,000	227,000	241,000	172,000
Deferred income taxes	483,000	269,000	44,000	107,000	105,000
NET INCOME	1,004,000	318,000	7,000	157,000	75,000
Per common share	.41	.175	.005	0.11	0.05
BALANCE SHEET					
Working capital	114,000	668,000	91,000	192,000	170,000
Property and equipment	19,255,000	9,053,000	4,293,000	3,565,000	2,974,000
Other assets	1,581,000	65,000	50,000	55,000	74,000
CAPITAL EMPLOYED	20,950,000	9,786,000	4,434,000	3,812,000	3,218,000
Deduct Long-term debt	10,182,000	5,547,000	2,408,000	1,846,000	1,516,000
Deferred income taxes	1,158,000	675,000	344,000	301,000	194,000
Shareholders' equity	9,610,000	3,564,000	1,682,000	1,665,000	1,508,000
Common shares outstanding	2,065,418	1,999,252	1,410,086	1,408,486	1,408,486
CAPITAL EXPENDITURES					
Exploration and Development (net)	10,059,000	2,870,000	944,000	751,000	792,000
Well Servicing	667,000	—	—	—	—
Other	632,000	59,000	—	71,000	4,000
	11,358,000	2,929,000	944,000	822,000	796,000
OPERATIONS					
LAND HOLDINGS (working interest)					
Gross Acreage Held	882,000	1,627,000	1,639,000	2,482,000	4,150,000
North America — Net	89,000	111,000	92,000	138,000	315,000
Overseas — Net	24,000	43,000	47,000	178,000	307,000
TOTAL NET ACREAGE	113,000	154,000	139,000	316,000	622,000
DRILLING ACTIVITY					
Gross wells drilled	113.0	53.0	11.0	60.0	19.0
Net wells drilled	92.6	42.6	2.4	6.6	3.8
Productive	87.5	42.3	1.5	3.3	0.8
Dry	5.1	0.3	0.9	3.3	3.0
PRODUCTION — gross (before royalties)					
Crude oil and liquids — barrels	468,000	266,000	125,000	144,000	141,000
Average daily, barrels	1,282	730	341	395	387
Natural gas — mcf	607,000	195,000	164,000	191,000	103,000
Average daily, mcf	1,664	534	448	522	282
GROSS RESERVES — proven and probable					
Crude oil — thousand barrels	13,096	7,235	4,527	4,352	3,382
Natural gas — mmcf	12,989	9,589	5,767	4,961	4,510

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